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Jessawynne A Parker
jparke44@utk.edu

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Political Consequences of Cross-Border Labor Mobility in Luxembourg

Jessawynne Parker
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Abstract: The European Union uses cross-border labor mobility to promote European integration. In this paper, I analyze the political consequences of cross-border labor mobility in Luxembourg. Luxembourg has one of the busiest European borders in terms of cross-border labor flows. Due to its extensive regional economic networks and its participation in the EU Single Market, if there are to be adverse consequences, Luxembourg is the most likely Member State in which to have them. There are three main consequence that develop from cross-border labor flows. First, one consequence is increased unemployment among nationals as migrant workers enter the domestic labor market. Second, and more generally, there is a much greater likelihood of social tensions developing between nationals and foreigners. The third consequence is an increase in Euroskepticism. In conclusion, I investigate the impact of the free movement of labor on Luxembourg, and show that policy reforms can minimize the impact of these consequences without compromising Luxembourg's emphasis on maintaining social cohesion.

Keywords: Luxembourg, cross-border labor mobility, European Union, Schengen Area, policy, Euroskepticism.

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I. Introduction

For the past six decades the European Union (EU) has been engaged in economic integration with the aim of creating a single European economy. A feature of this integration process includes the free movement of labor within EU. While a single European labor market may spur economic growth, promote more efficient economies, and lower unemployment, it may also have political consequences. To explore these political consequences, this case study investigates the evolution of cross-border labor mobility for Luxembourg. The focus is on Luxembourg because it has an extensive history of cross-border labor flows as a result of its embedding in regional economic networks, and it has induced the highest rate of cross-border labor mobility in Europe. Consequently, if we are to observe any political consequences from cross-border labor mobility in the EU, then they are most likely to be evident in Luxembourg. Conversely, if there are not significant political problems in the Luxembourg case, then we should not expect cross-border labor flows to be a problem in other European countries since they have much lower levels of cross-border labor mobility. As this study aims to show, there are political consequences that have emerged from cross-border labor mobility in Luxembourg, and the government of Luxembourg has had to undertake significant policy reforms in order to maintain labor market stability and social cohesion. As such, other European governments and the European Commission (EC) ought to be aware of the three consequences and their corresponding political responses that the Luxembourg case provides.

The European Economic Community (EEC) set out to create four economic freedoms—the free movement of goods, services, capital and labor—in the Treaty of Rome (1957). The EEC sought to overcome physical, technical, and tax-related barriers that impeded the

completion of a common European market.¹ This effort to establish a European wide economic union was motivated by hopes for new market growth, more efficient economies and lower unemployment. The free movement of goods, services, capital and labor would become a reality with the completion of the Single Market and the formal establishment of the European Union (EU) in the Maastricht Treaty (1992). The EU Single Market was designed to promote Europe-wide commerce and to spur greater market growth by setting the same rules across the EU, in turn furthering European integration. The Schengen Agreement (1985) allowed for the free movement of persons within much of the EU, though it excluded Ireland, the United Kingdom, Cyprus, Bulgaria and Romania. The signatory Member States to the Schengen Agreement have abolished all internal borders such as passport and immigration controls in lieu of a single external border with a visa policy; thus creating the Schengen Area.²

Cross-border labor mobility refers to the migration of workers between countries. There are two dimensions to cross-border labor flows: 1) workers who work in one country while maintaining residence in another country (referred to as cross-border workers), and 2) workers who move to another country in order to work, temporarily or permanently (referred to as foreigners).³ While cross-border labor flows are particularly high in Luxembourg, they are relatively low in comparison to the rest of the EU. This is a product of the persistence of various formal and informal barriers in the Single Market and the Schengen Area. For example, legal and administrative barriers take account of social security disparities, a lack of recognition of workers' skills and qualifications, a lack of transparency regarding job openings, the limited

¹ European Union. European Commission. 2013. *EU Single Market: Historical Overview*.

² "The Schengen area and cooperation." 2009. *Europa: Summaries of EU legislation*.

³ Heinz, Frigyes Ferdinand, and Melanie Ward-Warmedinger. 2006. "Cross-Border Labour Mobility Within An Enlarged EU." *European Central Bank*: pp 8.

portability of pension rights. Also informal barriers include relocating costs, inadequate housing options, language, and finding employment for a partner to name a few.⁴

In response, the European Central Bank (ECB) has officially shown concern that the persistence of these barriers to labor movement will undermine the efficiency of a European labor market, as well as hamper an important adjustment mechanism in the context of Economic and Monetary Union (EMU). Because of the ECB's important role in the European Union, the EU in 2010 attempted to further promote the free movement of labor through the 'Europe 2020' strategy; this strategy is the European Union's ten-year growth strategy, covering such areas as employment, education and social inclusion.⁵ Likewise, Luxembourg has introduced a similar strategy at the national level to address problems arising from cross-border labor flows. The point is that the European Union, along with Luxembourg, are attempting to tackle these obstacles to cross-border labor flows as well as to maintain market stability and social cohesion.

In the course of promoting European integration, Luxembourg has experienced high levels of cross-border labor flows. Luxembourg has become a highly international economy with more than 40 percent of foreign workers residing and working in Luxembourg in 2011, an increase of 77 percent over the past ten years (2001-2011). As of 2011, about 50 percent of the cross-border workers resided in France, and about 25 percent resided in Belgium and Germany, respectively.⁶ Yet interestingly, Luxembourg has a high level of social cohesion among the national population as well as a high level of trust, not only in its own population (99 percent),

⁴ Heinz and Ward-Warmedinger. pp 5.

⁵ Grand Duchy of Luxembourg. 2011. *Luxembourg 2020: National Reform Program*.

⁶ Debroek, Veronique. 2009. "Luxembourg: the occupational promotion of migrant workers." *Eurofound: EWCO*.

but also in other populations (71 percent) as of 2004.⁷ Nevertheless, Luxembourg has initiated a number of policy reforms as a consequence of the growing number of cross-border workers and foreigners to national workers in the domestic labor market.

The central point here lies in the potential problems associated with supporting greater cross-border labor mobility, and the political responses needed to address them. First, considering both dimensions of cross-border labor flows, one potential consequence is increased unemployment and lower wages among nationals as migrant workers raise domestic labor market competition. Second, and more generally, there is the possibility of social tensions developing between nationals and foreigners. Third, a potential consequence is an increase in Euroskepticism, a negative reaction to further European integration of national and sub-national institutions and governance. European integration seeks to divide responsibilities and powers between different levels of governance (i.e. supranational and national governments). Given this, if the above consequences generate significant political responses from Luxembourg, then other cross-border areas could experience similar problems since Luxembourg offers the most likely case for cross-border labor mobility problems, necessitating political responses and more precisely policy reform.

Historically, Luxembourg partook in numerous economic unions prior to the formal establishment of the EU. Luxembourg formed a bilateral economic union with Belgium in 1921. Then Luxembourg, Belgium and the Netherlands established the Benelux Economic Union (1960), increasing cross-border cooperation among the three countries. More importantly, Luxembourg was one of the original six countries that signed the 1951 treaty establishing the

⁷ Stebe, Janez. 2007. "Europe as our new nation: trust and legitimacy in the EU," in March, Michael, Slava Mikhaylov and Hermann Schmitt (ed.), *European Elections after Easter Enlargement. Preliminary Results of the European Elections Study 2004*, CONNEX Report Series, Vol. 1, Wiesbaden: MZES, pp 278.

European Coal and Steel Community (ECSC), which developed into the EEC (1957) and later the European Union (1992). The original signatory countries sought to instigate a consolidation between their respective economies in order to compensate for the declining steel industry.⁸ More to the point, Luxembourg's involvement with these unions (especially the Benelux Economic Union) is significant to the wider EU aims of a common market since the unions created the first completely free international labor market.

Luxembourg has also focused on fostering cross-border partnerships at regional and metropolitan levels to further integrate the region—politically, economically, and socially. The partnerships consist of: First, the Greater Region (1971) which created a cooperation area based on a regional agreement between Saarland (Germany), the Rhineland-Palatinate region (Germany), the Lorraine region (France), the Wallonia region (Belgium) and Luxembourg. Second, Quattropole (2000) established a network to increase tourism and to develop a virtual European metropolis between the City of Luxembourg, Saarbrücken (Germany), Trier and Metz (France). Third, LELA+ (2006) links the cities of Esch-sur-Alzette (Luxembourg), Arlon (Belgium), Longwy, Thionville and Metz (France) to the City of Luxembourg. LELA+ provides representation for the participating cities with regards cross-border issues at the national level.

In short, these socio-economic networks link different communities to create sustainable cross-border cooperation and expand domestic labor markets via the free movement of labor. Beyond these networks, Luxembourg continues to partake in fostering cross-border labor flows, prompting national policy reforms to improve the domestic labor market and to maintain social cohesion. Addressed below are the potential consequences that cross-border labor mobility poses

⁸ The six original members of the European Coal and Steel Community included: Luxembourg, Belgium, the Netherlands, Germany, France and Italy.

for Luxembourg as well as some of the policy reforms implemented to minimize the impact of the high levels of labor flows.

II. Employment

Rapid growth of sectors like financial services in Luxembourg has spurred job creation over the past two decades, but in many cases, these new jobs have been filled by cross-border workers and foreigners rather than by nationals.⁹ In effect, the economy of Luxembourg has become dependent on external labor (i.e. foreigners and cross-border workers) to function in certain sectors such as the financial sector, which accounted for 33 percent of GDP in 2010.¹⁰ One potential political consequence associated with increasing flows of cross-border workers is that of higher unemployment rates among nationals. In Luxembourg, this could generate an adverse effect on the national employment rate if the government neglects to reform policies that could minimize the permanent impact of these labor flows. In 1995, the domestic employment was 215.5 in 1,000 persons. Then the rate rose steadily and reached 368.4 in 2011. Over the same period, cross-border worker employment has increased, constituting about 40 percent of the domestic employment. While the national employment has risen, the unemployment rate has reached a previously unknown level: from 4.8 (in 1,000 persons) in 1995 to 13.5 (in 1,000 persons) in 2011 (Table 1)—though it is still one of the lowest unemployment rates in the EU. Although weaker than cross-border worker employment growth, national employment growth has also been stronger than the average of EU countries.¹¹ Yet, the rise of the overall

⁹ Poirer, Philippe. 2009. "Luxembourg Report." *Sustainable Governance Indicators*. pp 17.

¹⁰ "Overview and outlook of a fast-growing sector." 2012. Financial Sector Professionals (PSF) in Luxembourg, Luxembourg, pp 1-48.

¹¹ According to eurostat, the average employment rate for the EU (27 countries) was 68.5 percent (2012), while the employment rate in Luxembourg was 71.4 percent.

unemployment rate points to structural problems since economies with rapidly expanding employment would typically be expected to experience a decrease in the unemployment rate.

Table 1: Luxembourg Labor Market Overview (in 1,000 persons) 1995 - 2011									
Year	1995	2000	2005	2006	2007	2008	2009	2010	2011
Specification									
1. <u>Domestic Employment</u>	215.5	263.8	307.8	318.8	333.0	348.8	352.2	358.6	368.4
2. <u>Cross-border worker ¹² employment</u>	47.3	79.0	108.5	116.3	125.4	134.9	135.9	138.7	143.4
3. <u>National Employment (1) – (2)</u>	168.1	184.8	199.3	202.5	207.6	213.9	216.3	219.9	225.0
4. <u>Unemployment</u>	4.8	4.5	8.5	9.0	9.1	9.3	12.5	13.5	13.5

Source: Statistics Portal

In this sense, Luxembourg is experiencing a paradox; the unemployment rate has been trending up throughout the decade (1995-2011) despite strong economic and employment growth. From 1990 to 2004, there has been a decline in the portion of the workforce comprised of Luxembourg nationals, from 53.9 percent to 33.4 percent (Table 2). Whereas the portion of the workforce comprised of cross-border workers and foreigners has steadily been increasing over the same time period; both portions grew about 20 percent. Interestingly, the percent of foreign workers in Luxembourg is almost double the number of nationals: 66.6 percent compared to 33.4 percent in 2004. As the portion of Luxembourg nationals declined to 33.4 percent and the portion of cross-border workers rose to 39.4 percent, these portions have become almost equivalent in 2004, which calls attention to the high levels of cross-border flows as well as the importance of foreigners and cross-border workers to the domestic labor market (Table 2). Consequently as the portion of the workforce comprised of Luxembourg nationals declines, the unemployment rate increased among certain groups such as those who are young, unskilled, second-earners, or older workers due to low labor market attachment, especially in the

¹² A Cross-border worker are also known as frontier worker, which means any employed or self-employed person who pursues his occupation in the territory of a Member State and resides in the territory of another Member State to which he returns as a rule daily or at least once a week.

financial sector.¹³ These pockets of weaker outcomes for national employment raise challenges for labor market and social cohesion policies.

Table 2: Percentage of employed people in Luxembourg from 1990 - 2004								
Year	1990	1995	1999	2000	2001	2002	2003	2004
Nationals	53.9	44.5	39.1	37.5	35.5	34.7	34.1	33.4
Foreigners	46.1	55.5	60.9	62.5	64.5	65.3	65.9	66.6
Cross-border workers	19.6	27.7	33.2	33.3	37.5	38.0	38.6	39.4

Source: Statistics Portal

Even though the demand for cross-border labor has stabilized since 2008 after decades of rapid growth, many Luxembourg citizens expressed concern about the rising unemployment rate, which was conveyed in one of the Eurobarometer surveys about the 2008 financial crisis. According to this European-wide public opinion survey conducted in 2012, the citizens interviewed in Luxembourg mentioned unemployment rate more frequently than in previous surveys.¹⁴ Instead of offsetting the rising unemployment rate, the strong economic growth has attracted higher flows of cross-border workers from neighboring countries and a large number of foreigners from linguistic and cultural backgrounds very different to that of longer-standing residents. These labor flows (i.e. cross-border workers and foreigners) represent significant proportions of the domestic labor market and are intrinsically changing the demography of Luxembourg. In addition, the importance of these workers also presents challenges for policies that are usually directed toward nationals to whom the government is democratically accountable.

Additionally, one of the ramifications of the 2008 financial crisis has been the stagnation of employment growth for nationals. This stagnation, according to the OECD Economic Survey (2010), is due to almost half of the jobs in the Luxembourg labor market being held by cross-border workers, who accounted for a large fraction of the overall increase in employment. This

¹³ Lawson, Jeremy. 2010. "Making the Luxembourg Labour Market Work Better." Working Paper No. 778. pp.11.

¹⁴ European Union. Directorate-General for Communication. 2012. *Standard Eurobarometer 77 The Crisis*. Print.

pattern can be explained by either the availability of a large labor market of well trained cross-border and foreigner workers who have lower reservation wages than the national population, or because Luxembourg residents are more likely to be employed in the non-financial sectors. Specialization is likely to have made it more difficult for some people without the appropriate skills to find employment. As a result, the education system has to find a balance between equipping students with skills for employment in growth sectors and providing the language skills for fluency in the three official languages needed to maintain social cohesion.

Luxembourg has national policies that contribute to the increasing unemployment rate when coupled with cross-border labor flows. In particular, cross-border workers' and foreigners' reservation wages are below those in Luxembourg due to lower wages in neighboring countries—lower minimum wages and less generous social transfers than for Luxembourg residents. Furthermore, the large gap between the level of benefits in Luxembourg and those in neighboring countries results in a large gap in these reservation wages—the lowest wage rate at which a worker would be willing to accept a particular type of job. Hence, a job involving the same type of work and the same working conditions, but at a lower minimum wage rate, would be more likely to be rejected by the worker. As a consequence, the unemployed in Luxembourg have less incentive to search for a job in Luxembourg than workers in neighboring countries.¹⁵

A high minimum wage applies to a large share of the work force in Luxembourg. It is high by comparison, partly reflecting high living costs (Table 3). While monthly minimum wages rose in Luxembourg, Belgium and France alike, Luxembourg's remains the highest at 1,801.49 Euros in 2012. The monthly minimum wage in Luxembourg increased by 191.96 Euros, whereas Belgium's grew by 107.74 Euros and France's grew by only 77.35 Euros (Table

¹⁵ Fehlen, Fernand, Mario Hirsch, and Nils C. Bandelow. 2011. "Luxembourg Report." *Sustainable Governance Indicators*."

3). In general, cross-border and foreign workers are more likely to seek and obtain jobs with a higher minimum wage (i.e. Luxembourg) as high-skilled workers as opposed to the low-skilled residents available in the domestic labor market. As a result, the high minimum wage provides an incentive for cross-border workers and foreigners who have lower reservation wages and often better qualifications, whereas the lower minimum wage rates in the neighboring countries of Belgium and France are unappealing for unemployed nationals (Table 3). But Luxembourgers that are actually seeking employment are competing with numerous job applicants from other countries (i.e. foreigners and cross-border workers).

Table 3: Monthly Minimum Wages (in Euros) 2008 – 2012					
Year	2008	2009	2010	2011	2012
<u>Country</u>					
Luxembourg	1,609.53	1,682.76	1,724.81	1,757.56	1,801.49
Belgium	1,335.80	1,387.50	1,415.24	1,443.54	1,443.54
France	1,321.02	1,337.70	1,343.77	1,365.00	1,398.37
Germany	: (z)	: (z)	: (z)	: (z)	: (z)

Source: eurostat : (z) not applicable

In addition, generous social benefits and social protection schemes (such as out-of-work benefits, unemployment insurance, minimum guaranteed incomes¹⁶) provide high levels of protection, which conversely lessen incentives to seek employment among Luxembourgish residents (Table 4). These differences in social benefits coupled with a higher minimum wage leads to stronger incentives for cross-border workers and foreigners to seek work in Luxembourg than for the resident population. Also, job security in Luxembourg remains relatively high due to strict labor laws—one of the highest rates of permanent employment contracts in the EU—which affects all workers in the domestic labor market.¹⁷ Thus, many of the jobs that require low- or medium-skilled workers are being increasingly occupied by cross-border and foreigner works,

¹⁶ Notably, the minimum guaranteed income (RMG) supports inactive individuals in poorer households with an income just below the full-minimum wage.

¹⁷ Poirer, pp 14.

who are often overqualified for the jobs that they are willing to take, which increases competition for jobs. These trends have important consequences for the employment of Luxembourg residents. This means that there is a significant challenge for the government either to ensure that the education system equips residents with the skills to be competitive for available jobs or create more jobs in other sectors of the economy for which their skills are suited (e.g. public sector).

Importantly, another European-wide survey conducted in 2012 showed that 83 percent of Luxembourg residents believed that they ultimately benefited from reduced border controls, suggesting that cross-border and foreigner workers will continue to be a significant demographic in Luxembourg.¹⁸ Although Luxembourgers acknowledged the possible benefits from free movement of labor, the employment issues may impact Luxembourg more broadly. As the unemployment rate has risen and cross-border labor flows have increased, a consequence of this may be the emergence of social tensions, particularly the degree of social cohesion and the dilution of the Luxembourgish identity.

III. Social Cohesion and Identity

Increased social tensions are another potential consequences of cross-border labor mobility that require a political response. Despite regular interactions with and respect for other EU citizens and cultures, Luxembourgish citizens expressed concern about the dilution of the Luxembourgish identity as more foreigners and cross-border workers are employed and living in Luxembourg.¹⁹ Consequently, social tensions may arise from not only rapid demographic change

¹⁸ European Union. Directorate-General for Communication. 2012. *Standard Eurobarometer 77 European Citizenship*. pp 18.

¹⁹ *Standard Eurobarometer 77 European Citizenship*, pp 37.

but also from a lack of political participation of foreigners in the decision-making process, which is essential to the effectiveness of the Luxembourg social model in fostering social cohesion.

Social tensions must be addressed in light of the Luxembourg social model and its Tripartite Coordination Committee. The Law of 24 December 1977 established the committee and gave the government to take measures aimed at stimulating economic growth and maintaining full employment. In order to build consensus among the government, employers and unions, the committee is comprised of: four government representatives from the ministries of economy, labor, social security and finance; four representatives from three nationally representative trade unions and from the public sector; four employer representatives from the Chamber of Commerce, the Chamber of Trade, the Chamber of Agriculture.²⁰ Considering this, the model requires a certain degree of social cohesion, compromise and commitment to the process for it to function. Another important aspect of the model is the role that it plays in keeping Luxembourg economically competitive as its demographic changes. Yet, one challenge that persists is that many foreigners and cross-border workers continue to have limited political access to and representation in this particular social model, which puts them at a disadvantage in terms of wage bargaining and negotiations with the government. Without policy reforms to address these problems, social tensions will continue to exist as Luxembourg attempts to further social and European integration.

In relation to the influx of foreigners from different linguistic and cultural backgrounds, another obstacle to social cohesion is concern over Luxembourgish cultural dilution. This concern was reflected in two particular events. First, the referendum on the European Constitutional Treaty yielded surprising results for such a pro-European country as Luxembourg.

²⁰ Wlodarski, Odette. 2009. "Social election campaign targets cross-border workers." *Eurofound: Eironline*.

During this referendum, although a slight majority of Luxembourgers supported the pursuit of European integration with the communitarian method,²¹ 56 percent voted “yes,” while 43 percent voted “no”; this revealed the concern among Luxembourgish citizens about the potential dilution of the treasured Luxembourgish cultural identity. Second, the concern has appeared in debates on the Luxembourgish social model in the context of the Single Market as informal and formal barriers are addressed to boost the European economy and create jobs; this sheds light on the increasingly mixed feelings about furthering European integration, which can be perceived as increasing Euroskepticism.

Notably, after several years at the top of the ranking of support for membership in the European Union, Luxembourg dropped to the fourth place with a decrease in support from 82 percent to 72 percent in only one year (2009).²² After the 2008 financial crisis, there was an increase of Euroskepticism that occurred in 25 of the 27 Member States, particularly in Luxembourg. According to the *Eurobarometer*, Euroskepticism increased by 42 percent in Luxembourg, which is significant development in one of the most pro-European countries.²³ Whereas if this consequence did not appear in Luxembourg, then it is unlikely that it would appear elsewhere since Luxembourg offers the most likely case with the highest flows of cross-border flows; thus, seeing that consequences of cross-border labor mobility have emerged here, these consequences could appear in other cross-border areas in the EU. Therefore, the policy reforms outlined below should help to minimize the impact of the employment and social challenges on the labor market.

²¹ The communitarian method is a method of social organization based on small self-governing communities.

²² Poirer, pp 5.

²³ European Union. Directorate-General for Communication. 2012. *Standard Eurobarometer 77 The Crisis*. pp 18.

IV. Political Responses to Cross-border Labor Mobility

The case study of cross-border labor mobility in Luxembourg has yielded a number of consequences that the national government has had to address via policy reforms. In the period under review, the government coalition won re-election and the dominant position of the Christian Social People's Party (CSV), which has been in power since 1979, was reinforced.²⁴ Despite the rising unemployment rate, increasing social tensions, and Euroskepticism, Luxembourg has not seen a major political shift from the elected CSV party, implying that the government is sufficiently addressing the consequences of cross-border labor mobility.

Prior to the current high level of unemployment, Luxembourg introduced a guaranteed minimum income (RMG) in 1986 as an instrument of social cohesion in order to provide a decent standard of living, by guaranteeing a minimum means of subsistence.²⁵ The conditions of eligibility, however, call for availability to accept any offer of suitable employment, or a place on a training scheme or temporary assignment. Yet, the Luxembourg Ministry of the Economy and Foreign Trade has criticized these instruments of the social protection schemes, which were implemented to maintain social cohesion; the Ministry argued that the RMG has an added risk in which recipients of such generous social benefits would no longer wish to reenter the labor market but rather would live off national funds. This creates a significant obstacle for the government to overcome in terms of decreasing the unemployment rate because the government has expressed no real desire to dramatically cut these programs in spite of the high labor flows of foreigners and cross-border workers.

With the changing demographics, Luxembourg passed the Law of 27 July 1993, which institutionalized a High Commission of the government for foreigners. This commission works

²⁴ Fehlen and Bandelow, pp 3.

²⁵ Poirer, pp 11.

to promote social and cultural activities in favor of foreigners and has established the National Council for Foreigners. This council consists of a consultative body that is charged with studying all the problems concerning foreigners and their integration. The establishment of these bodies signifies the government's attempt to implement greater political integration for foreigners and to address future problems that could occur as more foreigners seek employment and live in Luxembourg.

Social cohesion is a goal not only of national governments but also the EU as a whole. Thus, the European Commission finances programs aimed at 'Europe 2020' objectives. Specifically, the European Commission approved an Operational Program for Luxembourg; this provides monetary assistance to Luxembourg under the 2007-2013 cohesion policy, which aims to support territorial competitiveness, to strengthen territorial cohesion, and to improve technical assistance.²⁶ Due to the nature of Luxembourg's highly international labor market, the operational program not only benefits Luxembourg but also Belgium, France, and Germany—supporting European aims of further integration, even at a regional level.

During 2008, Luxembourg issued a number of legislative reforms relating to domestic employment and foreigners. One of the ramifications of the 2008 financial crisis has been the stagnation of employment growth for nationals; thus Luxembourg has implemented a short-term jobs scheme on a national level and also has increased its expenditures on social protection schemes significantly, especially over the past ten years (Table 4). Since then, Luxembourg has also implemented the following policies. The Luxembourg voted in the Law of 29 August 2008 to allow the free movement of people and immigration, which changed previous legislation in order to permit temporary residency and work by persons who are third party country nationals,

²⁶ European Union. European Commission. 2007. *Regional Policy - Operational Programme 'Luxembourg'*.

or rather who are a non-EU nationality. This aimed to adapt immigration to the needs of Luxembourg's economy in that Luxembourg need foreigner workers who have the appropriate skills to fill the demand in the labor market.

The Law of 23 October 2008 provides for the recognition of dual citizenship and the acquisition of Luxembourg citizenship by naturalization, which aimed to encourage political participation of foreigners as Luxembourgish citizens by reinforcing the integration of foreign residents and simultaneously to alleviate social tensions developing from fear of the dilution of the Luxembourgish identity. And the Law of 16 December 2008 on the reception and integration of foreigners modified the National Council for Foreigners (CNE) in order to adapt the legal framework to the needs of an ever more diverse Luxembourg society in order to guarantee the successful integration of foreigners.; therefore, the CNE now represents foreigners, refugees, the Luxembourg inter-municipality trade union (Syvicol), employers' organizations, trade unions, and civil society, since it acts an advisory body in charge of studying issues relating to all forms of foreigners and their integration.

The latter law also reorganized the administrative structure managing integration policy by creating the Luxembourg Office of Reception and Integration (Luxembourg Reception and Integration Agency, OLAI). This agency replaced the Government Commission for Foreigners (CGE), which was established by the amended Law of 27 July 1993 on integration and was in charge of social actions in favor of foreigners in Luxembourg. Now, OLAI is responsible for integrating non-Luxembourgers into Luxembourg society and avoiding the creation of parallel societies. For example, the agency implements and coordinates the reception and integration policy of foreigners. Furthermore, it compiles a five-year national report on the integration of

foreigners, which is significant when implementing effective policy for the current realities in Luxembourg.

With regard to social cohesion, concern about the dilution of the Luxembourgish identity has manifested its in a few ways, specifically the process to obtain citizenship and Euroskepticism/ There exists a fear that the social rules and linguistics that characterized Luxembourg could disappear without the proposal of a more participative social model, or without the establishment of a Luxembourg language test to obtain dual citizenship. Therefore, Luxembourg has since revised its citizenship law to allow for dual citizenship from January 1, 2009. In order to alleviate these identity concerns, the government made knowledge of the Luxembourgish language obligatory for anybody seeking citizenship. Since this revision, the number of applications had multiplied by four compared to the same period the year before.

Apart from cross-border and foreign workers, the Luxembourg government continues to aim for full national employment. Following the example of the European objective for 2020, Luxembourg's objective for 2020 is to decrease the unemployment rate through greater participation of young people, older workers and low-skilled workers and better integration of legal foreigners.²⁷ The government plans to reach this objective through a series of policy measures. For example, Luxembourg is reforming its public employment agency (ADEM), since the agency currently undermines the confidence of employers, leaving them to draw employment from the pool of cross-border workers instead of domestic workers. Naturally, another objective is pressing employers to first attempt to fill job openings within the national labor market through the reformed ADEM. Also, the government plans to create subsidies for job creation,

²⁷ Grand Duchy of Luxembourg.

especially in sectors (i.e. public service) that are more pertinent to the skills available in the national labor market.²⁸

When coupled with the generous social benefits, strict labor laws and high minimum wage, these reform efforts currently have a limited impact on the inadequacy of education to produce workers with the appropriate skill sets. Given this, a significant challenge exists for the government either to ensure that the education system equips residents with the skills to be competitive for jobs in the economy's growing financial sector or facilitate more job creation in other sectors of the economy for which they are suited. In short, the surge in unemployment over the past few years means that it is crucial that support services for the unemployed such as ADEM operate effectively to help prevent short-term unemployment translating into long-term unemployment.

As for the effectiveness brought about by social model reforms, the political participation of foreigners at the local level has improved. All foreigners, EU citizens as well as non-EU citizens, have the right to participate in local elections provided they fulfill certain residency requirements and are registered on the electoral list. The political participation of foreigners at the local level has improved. However, 44% of the resident population is excluded from national elections because they are not citizens of Luxembourg. In addition, Prime Minister Jean-Claude Juncker has, however, exercised his veto against allowing foreigners to vote in parliamentary elections. Of those, 70% are citizens of the European Union and can therefore participate in European elections.²⁹

Unfortunately, Luxembourg's current labor immigration policy is based on legislation passed in March 1972 that has change little in the last two decades, even though 77 percent of

²⁸ Fehlen and Bandelow, pp 14-15.

²⁹ Fehlen and Bandelow, pp 8.

Luxembourg holds the belief that immigrants bring a lot to a country.³⁰ Notably, the law does not distinguish between workers who are highly skilled and those who are semi- or unskilled. Thus, the low-skilled immigrant population faces different integration obstacles. According to immigrant associations within Luxembourg, the language test acts as a deterrent, especially since French is the principal language of communication. Moreover, the reception and integration contract, which is voluntary in nature, contains some reciprocal commitments for the government and the immigrant to organize and facilitate their integration: the government undertakes to provide language training and civic courses as well as measures to promote the social and economic integration of the Luxembourg report foreigner; the immigrant is committed to participate in societal life.³¹ Despite the headway that the council and policy reforms have made, the political participation of foreigners in the decision-making process continues to challenge the social cohesion in the country.

V. Conclusion

Cross-border labor flows are present in many labor markets, be it at the supranational level (i.e. European Union), the national level (i.e. Luxembourg), or even at the regional level (i.e. the Greater Region – countries with smaller border). This paper has shown that cross-border labor flows have impacted Luxembourg in three particular ways. There has been not only an increase in the unemployment rate among Luxembourgers, but also an increase in social tensions—as consequences of this phenomenon. Specifically, the uprise of Euroskepticism and the questions of dilution of the Luxembourgish identity have occurred. Subsequently, the Luxembourg government has responded to these consequences by developing a variety of

³⁰ European Union. Directorate-General for Communication. 2012. *Standard Eurobarometer 77 The Values of Europeans*. pp 31.

³¹ Fehlen and Bandelow, pp 21.

initiatives to try to manage the expansion of cross-border labor flows. Even though Luxembourg offers the most likely case for these consequences to appear, this case study suggests that Luxembourg has certainly seen these consequences arising.

Therefore, it is not the case that Luxembourg has been able to deal with these massive cross-border labor flows without political response to them. Luxembourg government has reformed policy and created new policy in order to maintain labor market stability and social cohesion. Furthermore, Luxembourg will continue to experience large-scale cross border labor movement, as long as the European Union continues to promote further European integration via uninhibited cross-border labor mobility; these movements will require Luxembourg to continue to adapt its laws and policies. We can therefore expect other cross-border areas to have to deal with these consequences. However, other areas do not have the same degree of cross-border labor flows as Luxembourg, although the EU continues to encourage, stimulate, and govern cross-border labor mobility as one of its essential aims. Nevertheless, it is not clear from this case study to what extent these problems will emerge in other EU cross-border areas (such as the areas between Belgium and France, Germany and France, France and Italy, UK and Ireland).

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